TRANSMITTAL SLIP | DATE 5 Aug 82

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The Pipeline Dispute: Both Sides Have Erred

Europe

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Bonn

The gas-pipeline deal between Western Europe and the Soviet Union is not worth the political price. It may have commercial merit for Europe, but the bitter disputes among the allies have created cracks in European-American relations that are likely to reopen later, long after this affair has been patched over.

Arguments for and against the pipeline have been overblown. It is a big business deal, but it is neither the economic panacea nor the security risk that advocates and critics claim. Western Europe could survive without the pipeline, and the West will survive with it. The pipeline won't solve Europe's energy problems; it will provide no more than 5% of the total. Large sums of Western currency will flow back into the Soviet Union, but that's not going to bail out the ailing Soviet economy. Construction of the line won't provide full employment in Germany, France, Britain and Italy, nor would its cancellation topple those economies. The deal will neither resuscitate detente nor force Western Europe to succumb to Soviet economic blackmail.

The problem with the pipeline is that it has produced total disarray of the Atlantic Alliance. Whatever the economic merits of the project, they don't justify the current political consequences. Both sides have erred. The European decision to enter the pipeline contracts despite serious objections from the White House and Capitol Hill was arrogant. But with mixed signals coming from America during the years of preliminary consultations, and later from the Reagan administration too, European leaders had reason to doubt whether America knew where it stood on the issue. Those Europeans who opposed the project as contrary to Europe's best interests found American disarray on the subject unnerving.

The Social Democrats and Socialists in Europe failed to grasp that the United States and Ronald Reagan had pronounced detente dead. Mssrs. Schmidt and Mitterrand continued to pursue their private version of "detente" anyway. When they permitted the signing of the contracts last year, they seriously underestimated the earnestness of the new American administration in taking a hard line against the Soviets. They also underestimated the "get tough" attitude the administration was developing toward uncooperative friends. Mr. Reagan did not make his position clear before he was on a collision course with the allies. What produced sparks at the Versailles economic summit conference produced a full-scale explosion when Mr. Reagan extended his embargo on pipeline technology to U.S.-licensed firms.

Europe is furious with the enlarged embargo decision because it is a clear violation of national sovereignty. The ramifications for companies under contract are a legal and economic nightmare. Companies having no contracts involving pipeline technology may also be entangled, with millions of dollars worth of business at stake. And in one of the more ironic twists, companies which complied with American demands would end up with the worst of both worlds, as they would have to pay stiff fines for nonfulfillment of their contracts. The net result would be a cash transfer to the Soviets anyway.

Economic embargoes never work. Unless all major suppliers take part, there is always a way to circumvent them. That is precisely the case at present, with Europe standing in defiance of Mr. Reagan's directive. The likelihood of making the sanctions stick is slim. Some European leaders were slow to voice disapproval of the crackdown in Poland, and of the Soviet role in it. None of them shares the American belief that holding up this commercial endeavor, which has been under way for years, is the appropriate way to respond. Western Europeans have at least followed the American lead to restrict further credit to the East, as an expression of a more restrictive attitude.

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The commercial benefits of the pipeline for Europe remain to be seen. The suppliers building the line have set their own conditions with the Soviets for the prices and terms of payment. The Soviets are getting large loans at below 8% a year. Although the European participants vary in their degree of direct and indirect government involvement, in Germany no public subsidies are involved. The suppliers themselves have extended the credit. Mannesmann and Kanis have made their own economic calculations, and they bear the responsibility for their accuracy.

No one knows what the price of gas from Siberia will be when it finally arrives in Europe. The future buyers are convinced that the Soviet gas will be competitive in price. West Germany's Ruhrgas AG, for example, which is the country's sole importer and main distributor, calculates that the gas will be 15% cheaper than the OPEC oil equivalent, as measured in calories. Its contracts call for pipeline gas to fill 30% of the country's needs, a figure which represents roughly 5% of Germany's total energy consumption.

Should that supply be interrupted for either technical or political reasons, Ruhrgas has developed elaborate contingency plans, including limited curtailment of service and quick conversion to alternative gas sources, coal and oil.

Trade with the East, like trade in general, should be conducted under normal, sound commercial conditions. The sale of American grain to the Soviet Union meets those requirements, and the recent decision to continue is sound because of that. The American farmers receive Soviet cash for their commodity. When European critics complain about the decision as inconsistent, they've missed the point. Contracts of this sort should be entered when they provide mutual benefits for buyers and sellers. Treasury Secretary Regan and Agriculture Secretary Block were right to claim the U.S. isn't doing the Soviet Union any favors in selling the grain.

Confrontations on East-West trade issues are inevitable without a well-thought-out set of principles for international trade in a post-detente world. Business with the East should be conducted with a clear-eyed appraisal of the risks and benefits. It's a mistake to believe that the West can induce changed political behavior in the East with economic incentives. Instead, the West should do business when normal commercial conditions are met, and the trade is mutually advantageous. With the exception of technology for military use, markets should be open. The West has been foolish to extend so much cheap credit to Eastern governments that are politically hostile and financially weak. But sales for cash are a different story. Western governments need to clear the air on guidelines for international trade and stop trying to cross ideological issues with commercial considerations. Until they do, the conflicts can only continue.

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